

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SSO-00 INRE-00 ICAE-00 AID-05
CEA-01 CIAE-00 COME-00 EB-08 EA-12 FRB-01 INR-10
IO-14 NEA-11 NSAE-00 OPIC-06 SP-02 LAB-04 SIL-01
AGRE-00 OMB-01 SS-15 /104 W
-----019629 221325Z /47

O R 221259Z JUN 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 3683
INFO WHITE HOUSE IMMEDIATE
DEPARTMENT OF TREASURY IMMEDIATE

UNCLAS SECTION 01 OF 02 PARIS 19878

USOECD

DEPT FOR EUR/RPE, CEA FOR GRAMLEY, TREASURY FOR WIDMAN

PASS FRB FOR TRUMAN

E.O. 11652: N/A
TAGS: OECD, ECON, US
SUBJECT: EDRC EXAMINATION OF U.S. - MISSING PARAGRAPHS

REF: STATE 157901

1. FOLLOWING IS COMPLETE TEXT WITH FOOTNOTES OF
PARAGRAPHS 56 AND 57:

56. THE TRADE DEFICIT WIDENED FROM \$33 BILLION IN
THE SECOND HALF OF 1977 TO AN ESTIMATED \$45 BILLION IN
THE OPENING QUARTER OF 1978. MUCH OF THIS
DETERIORATION APPEARS TEMPORARY(4) AND MAY PARTLY
REFLECT THE TERMS-OF-TRADE DETERIORATION BROUGHT ABOUT
BY THE DEPRECIATION OF THE DOLLAR(5). AS THESE FACTORS
REVERSE AND AS THE DEPRECIATION OF THE DOLLAR
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STRENGTHENS THE COMPETITIVENESS OF U.S. GOODS,
SOME GAIN IN MARKET SHARES IS ANTICIPATED. ON A
CUSTOMS BASIS, REAL EXPORTS ARE FORECAST TO GROW AT
AN ANNUAL RATE OF SOME 8-1/2 PER CENT OVER THE TWELVE
MONTHS THROUGH THE FIRST HALF OF 1979, WHILE THE
VOLUME OF NON-OIL IMPORTS IS FORECAST TO RISE BY LESS
THAN 2 PER CENT(1). OIL IMPORTS SHOULD FALL SLIGHTLY

IN 1978 AS ALASKAN OIL PRODUCTION PEAKS, BUT CONTINUE ITS UPWARD TREND THEREAFTER. ASSUMING NO FURTHER CHANGES IN EXCHANGE RATES, THE TERMS OF TRADE SHOULD IMPROVE OVER THE FORECAST PERIOD AS SOME EXPORTERS TAKE ADVANTAGE OF THE RECENT DOLLAR DEPRECIATION TO EXPAND PROFIT MARGINS WHILE COMMODITY AND OTHER IMPORT PRICES GROW ONLY MODERATELY. IN 1978, THE DEFICIT ON TRADE IS FORECAST TO REACH A LEVEL OF ABOUT \$36 BILLION WITH SOME IMPROVEMENT APPEARING BY THE FIRST HALF OF 1979. ASSUMING SOME INCREASE IN THE SURPLUS ON INVISIBLES, THE DEFICIT ON CURRENT ACCOUNT COULD RISE TO ABOUT \$25 BILLION IN 1978, BUT IT SHOULD FALL IN THE FIRST HALF OF 1979, PERHAPS TO AN ANNUAL RATE OF AROUND \$18 BILLION.

57. MOST PRICE INDICES REVEAL A SHARP PICK-UP OF INFLATION SINCE THE BEGINNING OF THE YEAR. DURING THE FIRST FOUR MONTHS THE CONSUMER PRICE INDEX FOR URBAN WORKERS ROSE AT AN ANNUAL RATE OF 10 PER CENT, AND AT 8-1/4 PER CENT EXCLUDING FOOD. AND DURING THE FIRST FIVE MONTHS THE WHOLESALE PRICE INDEX FOR INDUSTRIAL COMMODITIES ROSE AT AN AVERAGE RATE OF ALMOST 8-1/2 PER CENT (S.A.A.R.); THE SURGE IN FOOD PRICES PUSHED THE OVERALL WHOLESALE PRICE INDEX AHEAD AT A RATE OF 11-1/2 PER CENT. TAKING ACCOUNT OF THE RECENT ACCELERATION OF INFLATION, AND ALLOWING FOR UNCLASSIFIED

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TIGHTER LABOUR MARKET CONDITIONS, HOURLY EARNINGS

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ARE FORECAST TO RISE BY AROUND 8 - 8-1/2 PER CENT OVER THE NEXT TWELVE MONTHS. WITH HIGHER SOCIAL INSURANCE TAXES DUE AT THE START OF 1979 AND ALLOWING FOR PRIVATE FRINGES, COMPENSATION PER EMPLOYEE COULD RISE BY 9 - 9-1/2 PER CENT. SINCE PRODUCTIVITY GROWTH IS LIKELY TO BE IN THE 1-1/2 - 2 PER CENT RANGE, UNIT LABOUR COSTS COULD RISE BY 7 - 7-1/2 PER CENT. IF ACCOUNT IS TAKEN OF RECENT INFLATION SHOCKS(2), CONSUMER PRICES ARE UNLIKELY TO RISE MORE SLOWLY THAN UNIT LABOUR COSTS: THE PRESENT FORECAST ASSUMES THE CONSUMER DEFLATOR RISES BY 7 - 7-1/2 PER CENT (S.A.A.R.) OVER THE YEAR TO MID-1979.

FOOTNOTES:

(4) FOR REASONS DISCUSSED IN PART II.

(5) OVER THE YEAR TO THE FIRST QUARTER OF 1977, THE EFFECTIVE DEPRECIATION OF THE DOLLAR WAS ABOUT 6.7
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PER CENT; THE TERMS OF TRADE WORSENEED BY 3 PER CENT.

(1) THOUGH THE TRADE DATA ARE CURRENTLY SHOWING NONE OF THE IMPROVEMENT EXPECTED FROM THE DEPRECIATION OF THE DOLLAR, THERE IS SOME EVIDENCE THAT SOME GAIN IS UNDER WAY. AFTER RISING FROM DECEMBER TO MARCH, FOREIGN CAR SALES IN THE UNITED STATES FELL 9 PER CENT IN APRIL AND A FURTHER 14 PER CENT IN MAY, WHILE SALES OF DOMESTIC PRODUCERS JUMPED 9 AND 11 PER CENT RESPECTIVELY IN APRIL AND MAY. OTHER EVIDENCE IS THAT, IN THE FIRST QUARTER OF 1978, THE VALUE OF EXPORT ORDERS FOR DURABLE GOODS WAS 12-1/2 PER CENT ABOVE THE 1977 LEVEL.

(2) THE DECLINE OF THE DOLLAR SO FAR MAY ADD 1/2 - 3/4 PERCENT TO THE PRICE LEVEL. FOOD PRICES ARE NOW FORECAST BY THE AGRICULTURE DEPARTMENT TO RISE BY 8 - 10 PER CENT THIS YEAR.

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